

Tag Europe Limited

Annual Report

Company registered number 02299109

31 December 2018

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Company information

Company registered number

02299109

Directors

R Howl

D Kassler

M Smith

Registered office

55 Wells Street

London

W1A 3AE

Strategic report

Strategic report for the year ended 31 December 2018

The directors present their strategic report on the Tag Europe Limited (the 'Company') for the year ended 31 December 2018.

Introduction

The Company's immediate parent undertaking is Tag Worldwide Group Limited and the ultimate parent undertaking is AI Wertheimer Holdings Limited, where the results of the Company are consolidated (hereby referred to as the 'Group'). The Group is ultimately owned by funds containing institutional owners and is controlled by funds advised by Advent International Corporation, a private equity investment company.

Principal activities and review of the business

The Company is a marketing and communication supply chain services company for the Williams Lea Tag Group of companies which provides marketing production and skilled business-critical support services worldwide.

The Company sits under the Tag business unit which is a leading end-to-end global creative production and sourcing partner to brands and agencies. As a production and sourcing specialist, Tag offers a complementary skillset to in-house teams and advertising agencies to bring to life, extend and deploy creative ideas. As a client partner, Tag brings a consultative and collaborative approach to developing bespoke solutions for unique needs.

The directors consider that the Company's key financial performance indicators during the year were as follows:

	2018	2017	Change
	£000s	£000s	%
Turnover	67,816	71,856	(5.6)
EBITDA before exceptional items	(4,843)	(12,958)	62.6

EBITDA represents earnings before interest, tax, depreciation and amortisation and is the main focus of interest being the variable element of operating profit and the key performance indicator used for external financing.

Turnover fell by 5.6% against 2017 primarily driven by lower customer activity arising from a more depressed retail market compared to 2017 leading to reductions in clients' marketing budgets and re-negotiations of fees. The outlook for 2019 is broadly consistent with 2018 from a turnover perspective.

EBITDA before exceptional items improved by £8,115k mainly as a result of efficiencies derived from a restructure of the business's cost base including further leverage of the Group's global footprint to deliver more services from countries with lower labour costs. Several efficiency programmes were run during the second half of 2017 and throughout 2018.

Principal risks and uncertainties

The Company assesses risk at board level and through other operational boards which meet on a regular basis. The principal risks and uncertainties facing the Company are set out below:

General business environment

The business of the Company substantially depends on the financial health of its customers which in turn depends on the global macro-economic environment.

Competition

The Company operates in a competitive environment and all contracts and processes are subject to regular analysis with the aim of retaining existing customers, growing the customer base and optimising the economic performance under customer contracts.

Strategic report (continued)

Employees

The hard work, expertise and commitment of its employees are essential to the commercial success of the Company and a high priority is placed on the effectiveness of employment practices and human resource development initiatives.

Information technology risks

Information technology is an integral part of the Company's service capability and its business performance depends heavily on the functioning and performance of its applications and infrastructure. Active risk management processes are in place to maximise the efficiency of the Company's technology. The directors continuously monitor data security compliance and risk.

Financial risk management

The Company's activities expose it to a variety of financial risks including inflation risk, credit risk, contract risk and liquidity risk.

Inflation risk

Inflation arises when goods and services sold by the Company are purchased from external suppliers. These costs are subject to regular review and competitive procurement processes. The Company is partially exposed to commodity price risk as a result of key raw materials historically showing volatility in price. Where possible the Company passes the effects of such volatility on to its customers. The majority of the goods and services sold by the Company are provided by its own resources or are bought in from related parties. Where services are bought in, the costs of these are recharged to customers.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer fails to meet its contractual obligations. Credit risk management follows normal best practice and includes varying levels of credit assessments according to customer size and active credit performance management through key performance indicators such as days' sales outstanding.

Contract risk

Contract risk is the risk of financial loss to the Company arising from contract breach. Contract risk is managed by a formal contract approval processes, active operational management and, to in some cases, certain risks are insured.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company aims to mitigate liquidity risk by managing cash generation by its operations, for example through applying cash collection targets. The Company also manages liquidity risk through its participation in the in-house banking arrangements of Williams Lea Group Limited, the immediate parent undertaking of Tag Worldwide Group Limited.

By order of the Board



Roger Howl
Director
27 September 2019

55 Wells Street
London
W1A 3AE

Directors' report

Directors' report for the year ended 31 December 2018

The directors present their annual report and the unaudited financial statements of the Company for the year ended 31 December 2018.

Results and dividends

The turnover of the Company for the year was £67,816,322 (2017: £71,855,626). The loss for the financial year amounted to £8,993,420 (2017: loss of £37,256,556). The loss for the year includes an impairment provision of £428,000 to reflect the underlying net asset value of investments held. No dividend was paid during the year (2017: £nil). The directors do not recommend the payment of a final dividend.

The Company had net current liabilities at the year end of £32,508,976 (2017: £23,435,573) and net liabilities of £32,011,237 (2017: £23,017,817).

Directors

Unless otherwise indicated, the directors who served during the year and up until the date of approval of this report were as follows:

R Coward	(resigned 15 March 2018)
S Faulkner	(resigned 22 February 2019)
R Howl	(appointed 25 February 2019)
D Kassler	
P Oldfield	(resigned 16 April 2018)
J Simpson-Dent	(appointed 1 April 2018; resigned 18 July 2019)
B Smith	(appointed 10 June 2019; resigned 16 September 2019)
M Smith	(appointed 24 September 2019)

Going concern

The directors make an estimate of future performance of the Company in order to prepare the financial statements on a going concern basis. When assessing future performance, the directors consider financial projections which reflect current market conditions, liquidity requirements and opportunities and risks facing the Company. The Company has obtained written confirmation from its parent undertaking AI Wertheimer Holdings Limited that it will provide finance, if required, for a period of at least 12 months from the date of approval of the Company's financial statements in order for the Company to meet its liabilities as they fall due. On this basis, the directors consider that the use of the going concern basis of accounting is appropriate.

Post balance sheet events

There have been no significant events affecting the Company since the year end.

Future developments

The directors intend to follow the strategy as set out in the Strategic report to continue to act as a marketing and communication supply chain services company for the Williams Lea Tag Group of companies

Qualifying third-party indemnities

The directors have been indemnified against liability in respect of proceedings brought by third parties, subject to the conditions set out in the UK Companies Act 2006. A qualifying third-party indemnity provision was in force during the period and up until the date of approval of the financial statements.

Directors' report (*continued*)

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial period. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Independent auditors

For the year ending 31 December 2018, the Company was entitled to exemption from audit under section 479A of the Companies Act 2006 relating to subsidiary companies. The members have not required the Company to obtain an audit of its accounts for the year in question in accordance with section 476.

By order of the Board



Roger Howl
Director
22 September 2019

55 Wells Street
London
W1A 3AE

Statement of comprehensive income
for the year ended 31 December 2018

	Note	2018 £	2017 £
Turnover	5	67,816,322	71,855,626
EBITDA before exceptional items		(4,843,405)	(12,958,353)
Exceptional items	7	(2,322,148)	(26,452,732)
Amortisation	8	(173,920)	(1,512,692)
Depreciation	8	(1,067,125)	(1,495,701)
Operating loss	6,8	(8,406,598)	(42,419,478)
Interest receivable and similar income	10	175,379	47
Interest payable and similar expenses	11	(426,577)	(446,474)
Amounts written off investments	15	(428,000)	(20,184)
Loss before taxation		(9,085,796)	(42,886,089)
Tax on loss	12	92,376	5,629,533
Loss for the financial year		(8,993,420)	(37,256,556)
Other comprehensive income for the year		-	-
Total comprehensive expense for the year		(8,993,420)	(37,256,556)

Balance Sheet

At 31 December 2018

	Note	2018 £	2017 £
Fixed assets			
Intangible assets	13	406,761	519,462
Tangible assets	14	1,685,011	2,696,903
Investments	15	450,666	878,666
		<u>2,542,438</u>	<u>4,095,031</u>
Current assets			
Stocks	16	1,094,511	324,968
Debtors	17	33,257,737	34,107,099
Cash at bank and in hand		736,835	5,891,406
		<u>35,089,083</u>	<u>40,323,473</u>
Creditors: amounts falling due within one year	18	<u>(67,598,059)</u>	<u>(63,759,046)</u>
Net current liabilities		<u>(32,508,976)</u>	<u>(23,435,573)</u>
Total assets less current liabilities		<u>(29,966,538)</u>	<u>(19,340,542)</u>
Provisions for liabilities	19	<u>(2,044,699)</u>	<u>(3,677,275)</u>
Net liabilities		<u>(32,011,237)</u>	<u>(23,017,817)</u>
Capital and reserves			
Called up share capital	20	9,600	9,600
Other reserves		900	900
Accumulated losses		(32,021,737)	(23,028,317)
Total equity		<u>(32,011,237)</u>	<u>(23,017,817)</u>

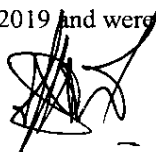
For the year ending 31 December 2018 the Company was entitled to exemption from audit under section 479A of the Companies Act 2006 relating to subsidiary companies.

The members have not required the Company to obtain an audit of its accounts for the year in question in accordance with section 476.

The directors acknowledge their responsibilities for complying with the requirements of the Act with respect to accounting records and the preparation of accounts.

The notes on pages 11 to 24 are an integral part of these financial statements.

The financial statements on pages 8 to 24 were authorised for issue by the board of directors on 27 September 2019 and were signed on its behalf by:



Roger Howl

Director

Company registered number: 02299109

Statement of changes in equity
for the year ended 31 December 2018

	Called up share capital	Other reserves	Accumulated losses	Total equity
	£	£	£	£
Balance at 1 January 2017	9,600	900	14,228,239	14,238,739
Loss for the financial year	-	-	(37,256,556)	(37,256,556)
Total comprehensive expense for the year	-	-	(37,256,556)	(37,256,556)
Total transactions with owners, recognised directly in equity	-	-	-	-
Balance at 31 December 2017	9,600	900	(23,028,317)	(23,017,817)
Balance at 1 January 2018	9,600	900	(23,028,317)	(23,017,817)
Loss for the financial year	-	-	(8,993,420)	(8,993,420)
Total comprehensive expense for the year	-	-	(8,993,420)	(8,993,420)
Total transactions with owners, recognised directly in equity	-	-	-	-
Balance at 31 December 2018	9,600	900	(32,021,737)	(32,011,237)

Notes to the financial statements

1. General information

Tag Europe Limited ('the Company') is a marketing and communication supply chain services company for the Williams Lea Tag Group of companies which provides marketing production and skilled business-critical support services worldwide. The Company is a private company limited by shares and is incorporated in the United Kingdom and registered in England. The address of its registered office is 55 Wells Street, London W1A 3AE.

2. Statement of compliance

The financial statements of Tag Europe Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland' ('FRS 102') and the Companies Act 2006.

The Company has early adopted the amendments to FRS 102 published in December 2017 and effective for accounting periods beginning 1 January 2019 or after.

3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to the periods presented, unless otherwise stated. The Company has adopted FRS 102 in these financial statements.

a. Basis of preparation

These financial statements are prepared on a going concern basis, under the historical cost convention.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

b. Going concern

The directors make an estimate of future performance of the Company in order to prepare the financial statements on a going concern basis. When assessing future performance, the directors consider financial projections which reflect current market conditions, liquidity requirements and opportunities and risks facing the Company. The Company has obtained written confirmation from its parent undertaking AI Wertheimer Holdings Limited that it will provide finance, if required, for a period of at least 12 months from the date of approval of the Company's financial statements in order for the Company to meet its liabilities as they fall due. On this basis, the directors consider that the use of the going concern basis of accounting is appropriate.

c. Exemptions for qualifying entities under FRS 102

FRS 102 allows a qualifying entity certain disclosure exemptions. The Company has taken advantage of the following exemptions on the basis that it is a qualifying entity:

- from the financial instrument disclosures, required under FRS 102 paragraphs 11.39 to 11.48 and paragraphs 12.26 to 12.29, as the information is provided in the consolidated financial statements of AI Wertheimer Holdings Limited;
- from disclosing key management personnel compensation in total, paragraph 33.7; and
- from preparing a statement of cash flows under FRS 102 paragraph 1.12(b), on the basis that it is a qualifying entity and its ultimate parent company, AI Wertheimer Holdings Limited, includes the Company's cash flows in its consolidated financial statements.

Notes to the financial statements (*continued*)

d. Consolidated financial statements

The Company is a wholly owned subsidiary of Tag Worldwide Group Limited and its ultimate parent undertaking is AI Wertheimer Holdings Limited. It is included in the consolidated financial statements of AI Wertheimer Holdings Limited which are publicly available.

The Company is exempt by virtue of section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements. The ultimate parent undertaking and the largest group to consolidate these financial statements is AI Wertheimer Holdings Limited. The address of the parent's registered office is 55 Wells Street, London, W1A 3AE.

e. Turnover

Turnover represents amounts receivable primarily for services provided in the UK and overseas net of trade discounts, value added tax, and other sales related taxes. Turnover is recognised when the risks and rewards of ownership have transferred, the Company retains no continuing involvement or control, the amount of turnover can be measured reliably, it is probable that future economic benefits will flow to the entity and when the specific criteria below have been met. Invoicing that does not satisfy these criteria is accrued or deferred as appropriate. When assessing the value of accrued income management considers factors including selling price, the ageing profile and historical experience. Income is deferred to the extent that it relates to future periods.

Turnover derived from the provision of services is recognised once delivery of those services is complete.

Where work is performed on behalf of other group companies, turnover is recognised to the extent to which the Company bears the risks and rewards of the arrangement.

Other operating income represents management fees receivable from fellow group undertakings.

f. Intangible assets

Computer software

Computer software is stated at cost less accumulated amortisation and accumulated impairment losses. Software is amortised over its estimated useful life, of between three and five years, on a straight line basis.

Where factors, such as technological advancement or changes in market price, indicate that residual value or useful life have changed, the residual value, useful life or amortisation rate are amended prospectively to reflect the new circumstances.

The assets are reviewed for impairment if the above factors indicate that the carrying amount may be impaired.

Notes to the financial statements (*continued*)

g. Tangible assets and depreciation

Tangible assets are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price, costs directly attributable to bringing the asset to its working condition for its intended use, dismantling and restoration costs.

Depreciation on assets is calculated, using the straight-line method, to allocate the depreciable amount to their residual values over their estimated useful lives, as follows:

Leasehold improvements	- over the term of the lease
Plant and machinery	- 3-5 years
Fixtures and fittings	- 5 years
Motor vehicles	- 5 years

Assets in the course of construction are not depreciated.

The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at the end of each reporting period. The effect of any change is accounted for prospectively.

The carrying values of tangible assets are reviewed for impairment by management in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

h. Investments

Investments held in subsidiary companies are held at cost less accumulated impairment losses.

The carrying values of investments are reviewed for impairment by management in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

i. Leased assets

At inception, the Company assesses agreements that transfer the right to use assets. The assessment considers whether the arrangement is, or contains, a lease based on the substance of the arrangement.

Leases of assets that transfer substantially all the risks and rewards incidental to ownership are classified as finance leases.

Operating leased assets

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Payments under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

Finance leased assets

Finance leases are capitalised at commencement of the lease as assets at the fair value of the leased asset or, if lower, the present value of the minimum lease payments calculated using the interest rate implicit in the lease. Where the implicit rate cannot be determined the Group's incremental borrowing rate is used. Incremental direct costs, incurred in negotiating and arranging the lease, are included in the cost of the asset.

Assets are depreciated over the shorter of the lease term and the estimated useful life of the asset. Assets are assessed for impairment at each reporting date.

The capital element of lease obligations is recorded as a liability on inception of the arrangement. Lease payments are apportioned between capital repayment and finance charge, using the effective interest rate method, to produce a constant rate of charge on the balance of the capital repayments outstanding.

Notes to the financial statements (*continued*)

j. Inventories

Inventories are valued at the lower of cost and estimated selling price less costs to complete and sell. Cost comprises purchase cost on a weighted average basis.

Work in progress is valued at the lower of the cost, which includes labour and other costs that are directly associated with work carried out to bring the unfinished projects to their current stage of completion, and estimated selling price less costs to complete and sell.

Where necessary, provision is made for obsolete, slow moving and defective inventories.

k. Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

l. Financial instruments

Financial assets and liabilities

Basic financial assets and liabilities, including trade and other receivables, cash and bank balances, trade and other payables and loans from fellow group companies are recognised at transaction price, unless the arrangement constitutes a financing transaction. The Company currently has no such financing transactions.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

m. Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

n. Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is recognised in other comprehensive income or directly in equity respectively.

Current or deferred taxation assets and liabilities are not discounted.

i. Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of the tax rates and laws that have been enacted or substantively enacted by the period end.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Notes to the financial statements *(continued)*

ii. Deferred tax

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is recognised on all timing differences at the reporting date except for certain exceptions. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

o. Foreign currencies

The Company's functional and presentational currency is the pound sterling. Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing exchange rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account except where deferred in other comprehensive income as qualifying cash flow hedges.

p. Pension costs

The pension costs charged against profit represent the contributions payable by the Company to defined contribution schemes for the year. Scheme assets are held separately from those of the Company in independently administered funds.

q. Exceptional items

Exceptional items are disclosed separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the Company. They are items that are material either because of their size or nature, or that are non-recurring and they are disclosed separately within the line items to which they best relate.

r. Related parties

The Company discloses transactions with related parties which are not wholly owned with the same group. It does not disclose transactions with its parent or with members of the same group that are wholly owned.

Notes to the financial statements (*continued*)

4. Critical accounting judgments and estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(i) Useful economic lives of intangible assets

The annual amortisation charge for intangible assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, and economic utilisation of the assets. See note 13 for the carrying amount of intangible assets, and note 3(f) for the useful economic lives for each class of asset.

(ii) Useful economic lives of tangible assets

The annual depreciation charge for tangible assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See note 14 for the carrying amount of tangible assets, and note 3(g) for the useful economic lives for each class of asset.

(iii) Accrued and deferred income

The Company makes an estimate of the level of accrued income at the year end date. When assessing the value of accrued income management considers factors including selling price, the ageing profile and historical experience. Income is deferred to the extent that it relates to future periods.

(iv) Impairment of debtors

The Company makes an estimate of the recoverable value of trade and other debtors. When assessing the impairment of trade and other debtors, management considers factors including the current credit rating of the debtor, the ageing profile of debtors and historical experience. See note 17 for the net carrying amount of the debtors and associated impairment provision.

Notes to the financial statements (continued)

5. Turnover

	2018 £	2017 £
<i>An analysis of turnover by destination is given below:</i>		
United Kingdom	23,291,909	28,273,404
Rest of Europe	26,535,213	27,424,797
Rest of the world	17,989,200	16,157,425
	67,816,322	71,855,626

All turnover relates to the sale of creative production and digital marketing asset management services which the Company considers to be a single class of business.

6. Operating expenses

Net operating expenses of the Company, including exceptional items (note 7), comprise:

	2018 £	2017 £
Cost of sales	53,501,987	70,012,341
Administrative expenses	27,520,768	49,650,536
Other operating income	(4,799,835)	(5,387,773)
	76,222,920	114,275,104

7. Exceptional items

Exceptional items included within operating expenses (note 6) are categorised as follows:

	2018 £	2017 £
Cost of sales:		
Expected contract losses	323,219	2,409,232
Other staff and reorganisation costs	1,547,957	-
Administrative expenses:		
Impairment of intangible assets	-	24,043,500
Other staff and reorganisation costs	450,972	-
	2,322,148	26,452,732

Exceptional costs during 2018 were largely incurred as a result of the restructuring of the Williams Lea Tag Group following the acquisition by the AI Wertheimer Group on 30 November 2017.

2017 exceptional costs represented unexpected contract losses on cancelled supplier contracts and impairment losses following a reassessment of the carrying value of internally developed software.

Notes to the financial statements (continued)

8. Operating loss

	2018	2017
	£	£
<i>Operating loss is stated after charging/(crediting):</i>		
Wages and salaries	30,115,849	38,699,610
Social security costs	3,285,806	3,978,208
Other pension costs	482,599	420,886
Total staff costs	33,884,254	43,098,704
Loss on disposal of tangible assets	117	527,596
Inventory recognised as an expense	17,402,473	22,072,262
Operating lease rentals	1,137,768	1,887,167
Foreign exchange losses	323,018	10,713
Exceptional costs of sales (note 7)	1,871,176	2,409,232
Exceptional administrative expenses (note 7)	450,972	24,043,500
Amortisation	173,920	1,512,692
Depreciation	1,067,125	1,495,701
Impairment of trade receivables	(3,019)	104,809

9. Employees and directors

Employees

The average monthly number of persons (including directors) employed by the Company during the year was:

	2018	2017
	Number	Number
Production	611	817
Administration and selling	1	8
	612	825

Directors

Directors' remuneration is paid by Williams Lea Limited, a company of which they are also directors. It is not possible to make an accurate apportionment of their remuneration in respect of the Company. Accordingly, these financial statements include no disclosures in respect of directors' remuneration. Their total remuneration is included in the aggregate of directors' remuneration disclosed in the financial statements of Williams Lea Limited.

10. Interest receivable and similar income

	2018	2017
	£	£
Bank interest receivable	-	47
Other financial income (discount rate adjustment)	175,379	-
	175,379	47

11. Interest payable and similar expenses

	2018	2017
	£	£
Interest payable to group undertakings	405,905	293,560
Interest payable on other loans	-	8,146
Discounting costs on provisions	20,672	144,768
	426,577	446,474

Notes to the financial statements (continued)

12. Tax on loss

Analysis of charge/(credit) in year:

	2018 £	2017 £
<i>Current tax</i>		
Foreign taxes	17,535	75,850
Adjustments in respect of prior years	55,286	(688,594)
Total current tax	<u>72,821</u>	<u>(612,744)</u>
<i>Deferred tax</i>		
Origination and reversal of timing differences	-	(8,060,006)
Impact of change in tax rates	-	940,200
Adjustments in respect of prior years	(165,197)	204,368
Deferred tax not recognised	-	1,898,649
Total deferred tax	<u>(165,197)</u>	<u>(5,016,789)</u>
Tax on loss	<u>(92,376)</u>	<u>(5,629,533)</u>

Reconciliation of tax credit

The tax assessed for the year is higher than (2017: is lower than) the standard rate of corporation tax in the UK of 19.0% (2017: 19.25%). The differences are explained below:

	2018 £	2017 £
Loss before taxation	<u>(9,085,796)</u>	<u>(42,886,089)</u>
Profit/(loss) multiplied by standard rate of corporation tax in the UK of 19% (2017: 19.25%)	(1,726,301)	(8,255,572)
<i>Effects of:</i>		
Expenses not deductible for tax purposes	266,419	137,488
Transfer pricing adjustments	-	58,078
Impact of change in tax rates	-	940,200
Group relief	1,463,819	-
Foreign taxes	14,203	75,850
Adjustments in respect of prior years	(109,911)	(484,226)
Deferred tax asset not recognised	(605)	1,898,649
Tax on loss	<u>(92,376)</u>	<u>(5,629,533)</u>

Tax rate changes

The UK corporation tax rate decreased from 20% to 19% from 1 April 2017. Changes to the UK corporation tax rates were substantively enacted as part of the Finance Bill 2016 (on 6 September 2016). These include reductions to the main rate to reduce the rate to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

Notes to the financial statements (continued)

12. Tax on loss (continued)

Deferred Tax

A summary of the Company's deferred tax asset is as follows:

	2018 Provided £	2018 Unrecognised £	2017 Provided £	2017 Unrecognised £
Accelerated capital allowances	-	577,769	-	662,760
Other timing differences	-	39,588	-	44,245
Trading and other losses arising pre 1 April 2017	-	1,245,709	-	1,191,644
Trading and other losses arising post 1 April 2017	3,806,332	-	3,641,135	-
	<u>3,806,332</u>	<u>1,863,066</u>	<u>3,641,135</u>	<u>1,898,649</u>

Deferred tax is calculated at rates between 17% and 19% (2017: between 17% and 19%).

13. Intangible assets

	Computer software £
Cost	
At 1 January 2018	28,295,998
Additions	61,219
At 31 December 2018	<u>28,357,217</u>
Accumulated amortisation	
At 1 January 2018	27,776,536
Charge for year	173,920
At 31 December 2018	<u>27,950,456</u>
Net book value	
At 31 December 2018	<u>406,761</u>
At 31 December 2017	<u>519,462</u>

Notes to the financial statements (continued)

14. Tangible assets

	Leasehold improvements £	Plant & machinery £	Fixtures & fittings £	Motor vehicles £	Total £
Cost					
At 1 January 2018	668,012	8,525,480	1,301,381	40,803	10,535,676
Additions	-	63,578	-	-	63,578
Disposals	-	(8,933)	-	-	(8,933)
At 31 December 2018	668,012	8,580,125	1,301,381	40,803	10,590,321
Accumulated depreciation					
At 1 January 2018	635,674	6,113,511	1,048,785	40,803	7,838,773
Restatement	(338,661)	338,661	-	-	-
Charge for year	82,787	934,586	49,752	-	1,067,125
Disposals	-	(588)	-	-	(588)
At 31 December 2018	379,800	7,386,170	1,098,537	40,803	8,905,310
Net book value					
At 31 December 2018	288,212	1,193,955	202,844	-	1,685,011
At 31 December 2017	32,338	2,411,969	252,596	-	2,696,903

15. Investments

	Investments in subsidiary undertakings £
Cost	
At 1 January 2018 and 31 December 2018	898,655
Provisions	
At 1 January 2018	19,989
Amounts provided	428,000
At 31 December 2018	447,989
Net book value	
At 31 December 2018	450,666
At 31 December 2017	878,666

The Company holds directly 100% of the ordinary share capital of Tag India Private Limited which is incorporated in India (Registered office 147, Tribhuvan Complex, Ishwar Nagar, Mathura Road, New Delhi, 110065, India).

The directors believe that the book value of investments is supported by their underlying net assets.

Notes to the financial statements (continued)

16. Stocks

	2018	2017
	£	£
Work in progress	1,094,511	324,968

The difference between purchase price or production cost of inventories and their replacement cost is not material.

Inventories are stated after provisions for impairment of £nil (2017:£nil)

17. Debtors

	2018	2017
	£	£
Trade debtors	13,455,052	15,196,351
Amounts owed by group undertakings	10,190,898	7,146,010
Other debtors	775,582	1,308,575
Corporation tax	1,088,606	1,056,404
Deferred tax (note 12)	3,806,332	3,641,135
Prepayments and accrued income	3,941,267	5,758,624
	33,257,737	34,107,099

Trade debtors are stated after provisions for impairment of £219,695 (2017: £232,868). Deferred tax is receivable in more than one year.

The £3,806,332 (2017: £3,641,135) due after one year relates to deferred tax (note 11).

Amounts owed by group undertakings are unsecured, interest free and repayable on demand.

18. Creditors: amounts falling due within one year

	2018	2017
	£	£
Trade creditors	3,851,433	2,953,903
Amounts owed to group undertakings - group in-house banking arrangement	31,360,663	34,634,867
Amounts owed to group undertakings - other	22,204,778	14,236,178
Other taxes and social security costs	1,954,714	1,826,881
Other creditors	980,772	351,633
Accruals and deferred income	7,245,699	9,755,584
	67,598,059	63,759,046

Amounts owed under the group in-house bank arrangement are unsecured and repayable on demand. They bear interest at annual rates of 1.2% (2017: between 0.20% and 1.17%). Other amounts owed to group undertakings are unsecured, interest free and repayable on demand.

Notes to the financial statements (continued)

19. Provisions for liabilities and charges

Provisions for liabilities and charges	Property	Onerous contracts	Total
	£	£	£
At 1 January 2018	692,182	2,985,093	3,677,275
(Credit)/charge to profit and loss for the year	(154,707)	432,684	277,977
Amounts utilised during the year	-	(1,910,553)	(1,910,553)
At 31 December 2018	537,475	1,507,224	2,044,699

Property

As part of the Company's property leasing arrangements there is an obligation to restore property to its original condition at the end of the lease. The expected cost is charged to profit and loss at the start of the lease and deferred in its entirety. This deferred expenditure is amortised on a straight-line basis over the term of the lease. The provision is expected to be utilised between 2019 and 2029 as the leases terminate.

Onerous contracts

The Company regularly assesses its client and supplier contracts to ensure that the expected economic benefits exceed the unavoidable costs of meeting the company's obligations under those contracts. Where costs to fulfil a contract are determined as exceeding the economic benefits, an immediate charge is made to profit and loss. The provision is expected to be utilised between 2019 and 2022.

20. Share capital

	2018 Number	2017 Number	2018 £	2017 £
Ordinary shares of £1 each	9,600	9,600	9,600	9,600

The ordinary shares issued by the Company have full voting, dividend and capital distribution rights. They do not confer any rights of redemption.

21. Pension arrangements

The Company operates a defined contribution pension scheme for its employees. The scheme assets are held separately from those of the Company in independently administered funds. The contribution payable during the year was £482,599 (2017: £420,886) and the pension payable outstanding at the year end was £Nil (2017: £Nil).

Notes to the financial statements (continued)

22. Financial commitments

Operating leases

The Company had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

	2018	2017
	£	£
Payments due:		
Within one year	386,592	553,647
Between two and five years	684,173	1,394,056
In over five years	422,055	497,260
	<u>1,492,820</u>	<u>2,444,963</u>

Capital commitments

At 31 December 2018, the Company had no committed capital expenditure (2017: £Nil).

23. Contingent liabilities

For Value Added Tax (VAT) purposes, the Company is grouped with other undertakings in a VAT group; under these arrangements the Company has a joint and several liability for amounts owed by those undertakings to HM Revenue & Customs.

24. Related parties

The Company is exempt from disclosing related party transactions as they are with other companies that are wholly owned within the group.

25. Parent undertaking and controlling party

Tag Worldwide Group Limited is the Company's immediate parent undertaking. AI Wertheimer Holdings Limited is the parent undertaking of the largest group of which the Company is a member and for which consolidated financial statements are prepared. Copies of the group financial statements of AI Wertheimer Holdings Limited can be obtained from 55 Wells Street, London W1A 3AE. The Group is ultimately owned by funds controlled by Advent International Corporation, a private equity investment company registered in the United States.